

AR20

SOGEPET LIMITED



1973
ANNUAL REPORT

SOGEPET LIMITED

Head Office
170 Bloor Street West, Suite 418
Toronto, Ontario, Canada
M5S 1T9

DIRECTORS

DOUGLAS A. BERLIS, Q.C.
IVAN CUTHILL
DR. FRANC. R. JOUBIN
JAMES P. MANLEY, Q.C.
WILLIAM F. MITCHELL
ARTHUR E. WOOTTON

OFFICERS

DR. FRANC. R. JOUBIN, *President*
WILLIAM F. MITCHELL, *Vice-President*
MRS. C. A. WOLF, *Secretary-Treasurer*

LEGAL COUNSEL

MANLEY, GRANT & CAMISSO

TRANSFER AGENT

GUARANTY TRUST COMPANY OF CANADA
TORONTO, ONTARIO

AUDITORS

LAVENTHOL KREKSTEIN HORWATH & HORWATH

SOGEPET LIMITED

Directors' Annual Report, 1973

TO THE SHAREHOLDERS OF SOGEPET LIMITED:—

Principal activity during the year was directed to the Hudson and James Bay regions of Canada. A full year of exploratory activity was also conducted in the Appalachian region of northeastern U.S.A.

The Arco Group entered into a contract for a major offshore well drilling program in Hudson Bay during the 1974 open-water season. It will employ the "Pentagone 82" drilling rig, viewed as one of the most advanced in the industry for drilling in rigorous northern latitudes. Plans are to drill at least two separate structures, and a probable return to the suspended Walrus well, at a total estimated cost of \$14 million of which your Company's share is 6.6%. During 1973, sea bottom surveys and engineering studies were conducted over contemplated well site locations, and some additional marine seismic surveying was also undertaken on this acreage.

Extensive marine surveys were performed in the Hudson Bay by at least two other groups during 1973. The results of one survey are available to the oil industry through purchase and have attracted considerable attention.

The Petcal (earlier Texas Gulf) Group remained involuntarily inactive during the period reviewed since practically all of this Group's acreage remains under a Federal Government work moratorium.

The Aquitaine Group's Hudson Bay Lowlands acreage received no attention during 1973. This acreage requires a seismic survey to link the Kaskattama well and the off-shore Arco survey which adjoins this acreage 40 miles to the north. This work will be held in abeyance until the initial Arco drilling has been completed.

In the Aquitaine Group's James Bay Lowlands permit area, experimental seismic studies over the frozen muskeg provided encouragement as to the applicability of this technique to this sub-basin. The planned Hambly No. 1 well was drilled. It failed to locate hydrocarbons but provided stratigraphic information of value. Geological studies have continued and some additional airborne geophysical surveying is planned during the summer of 1974.

The Appalachian region activities, mainly in New York State, consisted of geological studies and land acquisition. Land, well situated as to present production and favourable in our geological judgment, has been difficult to obtain. However, we now (March 1974) have sufficient acreage to warrant seismic studies and well drilling and these steps will be proceeded with during 1974.

We wish to record our appreciation to our several Group Operators and in particular to The Consumers' Gas Company for its financial sponsorship and contribution to the direction of our Corporation's affairs. Our thanks are also due to R. D. Johnson, Consulting Geologist and Calgary Office Manager, for his able supervision of our several joint programs during the year.

On behalf of the Board of Directors,

FRANC. R. JOUBIN,
President.

March 29, 1974.

Many Canadians, including the "Sogepet Family", were saddened by the death in 1973 of Oakah L. Jones, Chairman of The Consumers' Gas Company. He was a leader in several sectors of Canadian life and notably in our country's petroleum industry.

It is a source of great pride to us that he shared our vision for the development of yet another Canadian frontier, the Hudson Bay region and, through The Consumers' Gas Company, joined with us to contribute importantly towards the risks and realization of that vision.

SOGEPET LIMITED

AUDITORS' REPORT

To the Shareholders of
Sogepet Limited

We have examined the balance sheet of Sogepet Limited as at December 31, 1973 and the statements of deferred exploration and administrative expenditures and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the company as at December 31, 1973 and its activities and the source and application of its funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

LAVENTHOL KREKSTEIN HORWATH & HORWATH
Chartered Accountants.

Toronto, Ontario,
January 23, 1974.

Balance Sheet—

ASSETS

	December 31,	
	1973	1972
CURRENT:		
Cash	\$ 47,232	\$ 17,673
Deposit receipts	535,000	524,200
Accrued interest	9,056	8,300
Accounts receivable	2,333	2,161
	<u>593,621</u>	<u>552,334</u>
Work deposits on petroleum and natural gas exploratory permits (Note 1) ..	70,450	70,588
Deposit on application for permits (Note 2)	<u>42,833</u>	<u>42,833</u>
CAPITAL ASSETS:		
Interest in petroleum and natural gas exploratory permits, at cost (Note 3)	58,716	55,413
Deferred exploration and administrative expenditures	1,523,773	1,302,754
Share of advance on off-shore drilling rig mobilization and demobilization	227,694	—
	<u>1,810,183</u>	<u>1,358,167</u>
Less net proceeds from sale of interest in petroleum and natural gas exploratory permits	317,500	317,500
	<u>1,492,683</u>	<u>1,040,667</u>
Organization and stock exchange listing expenses	—	21,852
	<u>\$2,199,587</u>	<u>\$1,728,274</u>

LIMITED

ws of the Province of Ontario)

December 31, 1973

LIABILITIES

	December 31,	
	1973	1972
CURRENT:		
Accounts payable	\$ 1,359	\$ 1,250
Expenses incurred by The Consumers' Gas Company for which company's shares are to be issued (Note 4)	737,352	269,150

SHAREHOLDERS' EQUITY

CAPITAL (Notes 5 and 6):		
Authorized:		
5,000,000 Common shares, without par value		
Issued:		
1,511,303 Common shares (1972 — 1,491,303 shares)	1,569,792	1,544,938
DEFICIT	108,916	87,064
	1,460,876	1,457,874

See accompanying notes.

\$2,199,587	\$1,728,274
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Approved on behalf of the Board:

FRANC. R. JOUBIN, Director

A. E. WOOTTON, Director

SOGEPET LIMITED

DEFERRED EXPLORATION AND ADMINISTRATIVE EXPENDITURES

	Year Ended December 31,	
	1973	1972
EXPLORATION EXPENDITURES:		
Hudson and James Bay Area:		
Exploratory well drilling and related costs	\$ 776,788	\$ 187,139
Geophysical and geological surveys	305,884	259,092
Group exploration expenditures	1,082,672	446,231
Less other participants' share	921,240	359,814
Company's share of expenditures	161,432	86,417
Engineering and geological services	24,400	28,836
Lease rentals	1,859	5,243
Telephone and telegraph	914	2,124
Travel	—	2,396
Miscellaneous	514	215
	<u>189,119</u>	<u>125,231</u>
Appalachian Area, U.S.A.:		
Geological surveys and studies	108,931	45,000
Less other participants' share	84,209	36,000
Company's share of expenditures	24,722	9,000
Engineering and geological services	3,225	—
Lease rentals	3,242	—
Telephone and telegraph	228	—
Miscellaneous	128	—
	<u>31,545</u>	<u>9,000</u>
Total exploration expenditure	220,664	134,231
Administrative expenditures, per schedule	40,964	37,423
	<u>261,628</u>	<u>171,654</u>
Less interest income	40,609	33,941
Total expenditures for the year	221,019	137,713
Balance deferred at beginning of year	1,302,754	1,165,041
Balance deferred at end of year	<u>\$1,523,773</u>	<u>\$1,302,754</u>
SUMMARY OF DEFERRED EXPENDITURES:		
EXPLORATION:		
Hudson and James Bay Area	\$1,393,215	\$1,204,096
Appalachian Area	40,545	9,000
	<u>1,433,760</u>	<u>1,213,096</u>
Administrative, net of interest income	90,013	89,658
	<u>\$1,523,773</u>	<u>\$1,302,754</u>

SOGEPET LIMITED

STATEMENT OF SOURCE AND APPLICATION OF FUNDS

SOURCE OF FUNDS:	Year Ended December 31,	
	1973	1972
Interest income	\$ 40,609	\$ 33,941
Issue of capital stock	24,854	19,460
Reduction of work deposits	138	58,565
	<u>65,601</u>	<u>111,966</u>
APPLICATION OF FUNDS:		
Exploration expenditures	220,664	134,231
Administrative expenditures	40,964	37,423
Share of advance on off-shore drilling rig mobilization and demobilization	227,694	—
	<u>489,322</u>	<u>171,654</u>
Less expenditures incurred by The Consumers' Gas Company (Note 4)	468,202	159,870
	<u>21,120</u>	<u>11,784</u>
Deposit on application for permits	—	42,833
Acquisition of interests in petroleum and natural gas exploratory permits	3,303	2,928
Stock exchange listing expense	—	1,558
	<u>24,423</u>	<u>59,103</u>
Increase in working capital	41,178	52,863
Working capital at beginning of year	551,084	498,221
Working capital at end of year	<u>\$ 592,262</u>	<u>\$ 551,084</u>

See accompanying notes.

SOGEPET LIMITED

STATEMENT OF DEFICIT

	Year Ended December 31,	
	1973	1972
Balance at beginning of year	\$ 87,064	\$ 87,064
ADD:		
Organization and stock exchange listing expenses written off	21,852	—
Balance at end of year	<u>\$ 108,916</u>	<u>\$ 87,064</u>

SCHEDULE OF ADMINISTRATIVE EXPENDITURES

	Year Ended December 31,	
	1973	1972
Head office rent and administrative services	\$ 8,150	\$ 7,800
Manager's salary (Calgary)	12,000	10,800
Directors' fees	1,000	1,000
Legal and audit	3,817	2,511
Annual meeting expenses	3,290	2,653
Public relations and shareholders' information	3,464	4,225
Transfer agent's fees and expenses	2,505	1,380
Telephone	1,580	965
Travel	1,117	3,459
Bank charges	1,163	297
Miscellaneous	2,878	2,333
	<u>\$ 40,964</u>	<u>\$ 37,423</u>

SOGEPET LIMITED

NOTES TO FINANCIAL STATEMENTS

December 31, 1973

1. WORK DEPOSITS AND CONTINGENT LIABILITY:

Bank deposit receipts in the amount of \$65,500 have been pledged as security to the bank which has guaranteed \$62,125 of the company's promissory notes deposited with government departments in lieu of cash work deposits. These notes will be returned to the company in amounts equal to the allowable expenditures made within various stipulated time limits.

The work deposits of \$70,450 shown on the balance sheet include the above mentioned \$65,500 deposit receipts as well as \$4,950 deposited in cash.

In addition to the above, Aquitaine Company of Canada Ltd., a participant in two of the joint ventures mentioned in Note 3, has satisfied certain work deposit requirements in regard to one venture in the amount of \$2,074,222 by depositing its own promissory notes with the government agency involved. These notes will be returned to Aquitaine in amounts equal to the allowable expenditures made within various stipulated time limits. Should Aquitaine have to make any payment on these notes due to insufficient work, Sogepet would be required to contribute its share up to a maximum of \$136,899.

2. The company is a $\frac{1}{3}$ participant in an application for 34 permits (1,976,922 acres) in the Hudson Bay area. This application has been accepted but will not be granted until the company accepts new federal regulations under formulation. The \$42,833 shown on the balance sheet represents $\frac{1}{3}$ of the required payments in the form of a deposit receipt of \$40,000 which is pledged as a work deposit and permit application fees of \$2,833.

3. PETROLEUM AND NATURAL GAS EXPLORATORY PERMITS:

The company is a participant in petroleum and natural gas exploration ventures in the Hudson and James Bay region covering a total of 23,150,291 gross acres as follows:

Exploration group affiliation:	Gross Acreage	Sogepet's Net Acreage
Aquitaine — Sogepet group	4,591,968	1,480,904
Aquitaine — Arco group	15,072,294	994,771
Petcal group *	3,486,029	728,530
	<u>23,150,291</u>	<u>3,204,205</u>

* 3,251,029 acres are subject to a government work moratorium.

The company's interest in the Aquitaine—Sogepet and Aquitaine—Arco acreage is subject to a gross overriding royalty varying from .2% to 1.0% of all petroleum substances produced from such acreage. In addition, the company is a 25% participant in a petroleum and natural gas exploration venture covering about 2,500 acres as at December 31, 1973 in the Appalachian Area of the United States.

The company's policy is to make no write-off of acquisition costs and related deferred expenditures when only part of an area of interest is abandoned. The company considers the Hudson and James Bay region as one area of interest and accordingly no write-offs have been made for permits that have been abandoned.

4. AGREEMENT WITH THE CONSUMERS' GAS COMPANY:

- (a) Under an agreement dated July 20, 1971, The Consumers' Gas Company has agreed to spend \$2,000,000 over the next three years on gas and oil exploration on licences in the Hudson and James Bay or other areas in which the company holds an interest. There is provision in the agreement for extending the time in which to spend the aforementioned amount under certain conditions. Current extensions require the expenditure of \$1,750,000 by December 31, 1974, of which \$737,352 was incurred by The Consumers' Gas Company to December 31, 1973.

Consumers' is to receive, for the expenditures incurred, fully paid shares of Sogepet's capital stock from time to time on the following basis:

700,000 shares at \$1.25 per share	\$ 875,000
500,000 shares at \$1.75 per share	875,000
125,000 shares at \$2.00 per share	<u>250,000</u>
<u>1,325,000 shares</u>	<u>\$2,000,000</u>

Consumers' may at any time purchase any of the above shares that remain unissued from time to time for cash at the prices indicated.

During the 60-day period after the expenditures have aggregated \$1,750,000, Consumers' has the option to subscribe for additional shares at a price equal to 75% of the average bid price per share

during the 90-day period preceding the exercise of the option, so that it will own 51.75% of the then issued capital of Sogepet.

To date Consumers' has not acquired any of the above mentioned shares.

- (b) During the term of the agreement with Consumers', Sogepet may not issue shares or grant options for the purchase of shares without the consent of Consumers' except that it may grant its officers, employees and directors options to purchase up to an aggregate of 85,000 shares in addition to the options mentioned in Note 5, provided that it grants Consumers' the right to purchase an equal number of shares on the same basis. This right applies only to those options exercised by the officers, employees and directors.

5. STOCK OPTIONS:

At December 31, 1973, there were outstanding stock options to the Calgary manager and the company's president of 16,000 shares and 7,500 shares respectively exercisable at prices 20% less than the average bid price of the shares over the 90 days preceding the exercise of an option. The options are exercisable in varying lots at different dates to January 30, 1975.

The following is a summary of the changes in the outstanding options during the year:

	Manager	President	Consumers' Gas (Note 4(b))
Options outstanding, December 31, 1972	23,000	12,500	35,500
Options allowed to lapse	2,000	—	2,000
Options exercised	5,000	5,000	10,000
	<u>7,000</u>	<u>5,000</u>	<u>12,000</u>
Options outstanding, December 31, 1973	<u>16,000</u>	<u>7,500</u>	<u>23,500</u>

6. CAPITAL:

The following is an analysis of the company's issued capital stock as at December 31, 1973:

	Common shares	Amount
For cash	1,267,303	\$1,490,917
For services	94,000	71,375
In consideration for subscribing to preferred shares	150,000	7,500
	<u>1,511,303</u>	<u>\$1,569,792</u>

During the year ended December 31, 1973 the company issued 20,000 shares of its capital stock for \$24,854 cash as follows:

Exercising of stock options (Net 5):

	Shares	Amount
To Calgary manager	5,000	\$ 6,292
To president	5,000	6,135
	<u>10,000</u>	<u>12,427</u>
To Consumers' Gas (Note 4(b))	10,000	12,427
	<u>20,000</u>	<u>\$ 24,854</u>

Subsequent to December 31, 1973, 13,000 shares of the company's capital stock were issued for \$18,040 as follows:

Exercising of stock options:

	Shares	Amount
To Calgary manager	4,000	\$ 5,520
To president	2,500	3,500
	<u>6,500</u>	<u>9,020</u>
To Consumers' Gas	6,500	9,020
	<u>13,000</u>	<u>\$ 18,040</u>

7. MANAGEMENT CONTRACTS:

R. D. Johnson, Petroleum Geologist, entered into a contract to act as the company's Calgary office manager for the period July 1, 1971 to December 31, 1974, at a monthly salary of \$800 for 1971 and increasing by \$100 per month in each year thereafter.

The company also entered into a contract under which R. D. Johnson & Associates Ltd. agreed to act as the company's professional and technical advisor and to provide at its own expense the office facilities including staff for the company's Calgary office. In consideration, the company has agreed to pay, for the period July 1, 1971 to December 31, 1974, \$1,750 per month for 1971, to be increased by \$100 per month in each year thereafter.

8. OFFICERS' AND DIRECTORS' REMUNERATION:

Directors' fees paid during the year amounted to \$1,000. No payments were made to senior officers as such, except as indicated in Note 7. However, a corporation controlled by the company's president, a professional geologist, received \$4,200 for engineering and geological services and \$8,150 for head office rent and administrative services.



The Pentagone 82

This is the rig contracted for use on the Arco Group acreage in Hudson Bay during 1974. It is one of the world's most advanced rigs for work in rigorous northern latitudes.

